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MEDICAID'S ROLE IN CONNECTICUT'S ECONOMY, HEALTH SYSTEM, AND BUDGET

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Connecticut Health FOUNDATION
Changing Systems, Improving Lives.

Connecticut invests substantial resources in Medicaid—an investment that, as this brief will show, has significant benefits for the health and financial security of the state and its residents.

INTRODUCTION

During the 2017 Congressional debate over the future of the Affordable Care Act and the Medicaid program, there was growing awareness in both Connecticut and the nation of how many people rely on Medicaid for critical health care services. While it is widely understood that Medicaid provides health coverage to hundreds of thousands of low-income children, adults, seniors, and people with disabilities, what may be less understood is Medicaid's role in Connecticut's overall economy, health care system, and budget.

In addition to providing health coverage to hundreds of thousands of state residents, Medicaid is deeply woven into Connecticut's health care system and plays a major role in a sector of the economy that has been central to job growth in the state. Because Medicaid brings billions of dollars in federal funding to Connecticut and is structured to provide additional federal aid as demand rises, the program also plays a critical role in the state budget and in responding to economic downturns. Connecticut invests substantial resources in Medicaid—an investment that, as this brief will show, has significant benefits for the health and financial security of the state and its residents.

KEY FINDINGS

- **Medicaid is a key contributor to Connecticut's overall economy.** Health care makes up nearly 15 percent of the state's gross domestic product and is a significant source of job growth. Medicaid finances about 20 percent of health care expenditures in Connecticut.
- **Medicaid contributes the majority of the federal funding spent through Connecticut's state budget**, and the federal government pays more than half of the state's Medicaid costs. For every $10 spent on Medicaid in Connecticut, approximately $5.92 comes from the federal government.
- **Medicaid can help states cope with recessions and economic downturns** because it automatically increases federal funding in response to higher state costs, such as those resulting from Medicaid enrollment increases as people lose their jobs and health insurance.
- **Research has linked Medicaid coverage of children and pregnant women to long-term health and economic benefits** for children when they reach adulthood: better health outcomes, greater educational attainment, better employment, and higher earnings.

While Medicaid is recognized as a safety net program that provides health coverage to low-income individuals and families, discussions about its future must also consider the program's impact on the state's economy and the ways federal and state policy changes would affect Connecticut's economic growth and budget.

MEDICAID IN CONNECTICUT

Enacted in 1965, Medicaid has long covered low-income children and their parents, as well as seniors and people with disabilities. In 2010, the Affordable Care Act expanded Medicaid by opening eligibility to low-income non-disabled adults who did not have minor children. Connecticut's Medicaid program is known as HUSKY.

Medicaid is now a key source of health coverage for one in five Connecticut residents. More than 756,000 low-income people received health coverage through HUSKY in December 2016—approximately 21 percent of the state's residents.[1] Among certain groups, the reliance on Medicaid was even greater. In 2016, Medicaid covered (see Figure 1):

- More than one-third of Connecticut's children.
- Nearly 47 percent of non-elderly adults with disabilities.
- Nearly 15 percent of seniors.
- 70 percent of nursing home residents.[2]

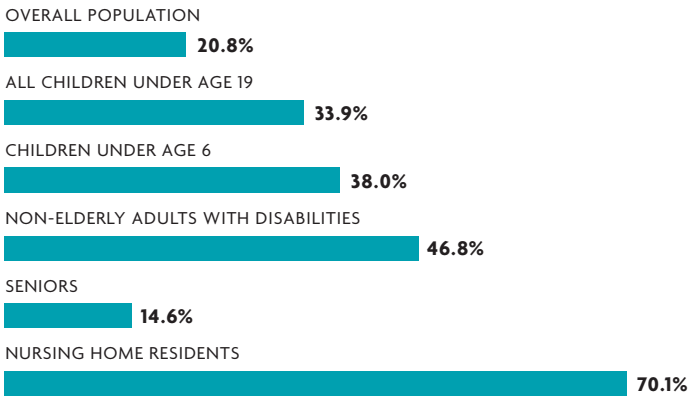
Medicaid also covered 47 percent of all births in Connecticut in 2013, the last year for which data is available.[3]

The Medicaid expansion has contributed to a sharp reduction in the number of uninsured state residents since its adoption in 2010. Medicaid has been a key contributor to the reduction in share of Connecticut's residents without health insurance since the state adopted the Medicaid expansion in 2010. Between 2010 and 2016, the share of the state population with Medicaid coverage rose more than five percentage points while the percentage of the population without health coverage fell from 9.1 percent to 4.8 percent (see Figure 2).[4] Nearly 210,000 low-income adults were enrolled through the Medicaid expansion, known as HUSKY D, as of December 2016.[5]

Medicaid provides access to needed care and improves health outcomes. Research shows that Medicaid coverage provides individuals with access to care such as well-child visits, and enables them to have a usual source of care. In addition, research has linked Medicaid with reduced infant and childhood mortality, likely because it leads to greater utilization of preventive and acute care health services.[6]

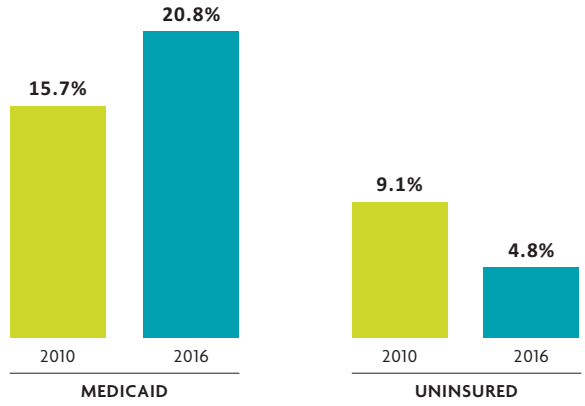
In Connecticut, expansion enrollees have experienced improved diabetes control, increased access to behavioral health treatment, and reduced emergency department utilization.[7]

FIGURE 1: MEDICAID COVERAGE IN CONNECTICUT (2016)



SOURCE: GEORGETOWN UNIVERSITY CENTER FOR CHILDREN AND FAMILIES ANALYSIS OF IPUMS AMERICAN COMMUNITY SURVEY AND KAISER FAMILY FOUNDATION DATA

FIGURE 2: MEDICAID COVERAGE GAINS AS UNINSURED RATE FALLS IN CONNECTICUT



SOURCE: GEORGETOWN UNIVERSITY CENTER FOR CHILDREN AND FAMILIES ANALYSIS OF IPUMS AMERICAN COMMUNITY SURVEY DATA

Medicaid will be critical to Connecticut's ability to meet the needs of its aging population.

Medicaid also offers economic security for low-income families by providing protection against unaffordable out-of-pocket costs, reducing difficulties in paying medical bills, and reducing the risk of medical debt and bankruptcy.[8]

MEDICAID'S ROLE IN CONNECTICUT'S ECONOMY AND HEALTH SYSTEM

Health care constitutes a sizable share of Connecticut's economy and job growth—and Medicaid plays a significant role in the health care system. Therefore, policy changes to Medicaid at either the federal or state level could have significant economic and employment effects in the state.

In 2014, health spending equaled 14.5 percent of Connecticut's gross domestic product.[9]

In addition, health care has been a large source of job growth in Connecticut, outpacing the overall economy. Health care employment grew while overall unemployment rose during the recession and continued to grow faster than the overall economy even as the recovery picked up steam. According to federal Bureau of Labor Statistics data:

- Between January 2008 and January 2018, health care employment in Connecticut grew 10.1 percent—an increase of nearly 20,000—while total non-farm employment fell by 1.4 percent.
- Between January 2011—when the state's unemployment rate began to fall from its post-recession high of 9.3 percent—and January 2018, employment in health care in Connecticut increased by 5.7 percent, compared to only 4.4 percent overall (see Figure 3).[10]

Experts forecast more growth in health care jobs in Connecticut and nationally.[11] The Connecticut Department of Labor projects that between 2014 and 2024, six of the 12 fastest growing occupations will be health-related: physical therapist assistants, physical therapist aides, occupational therapy assistants, nurse practitioners, home health aides, and personal care aides.[12]

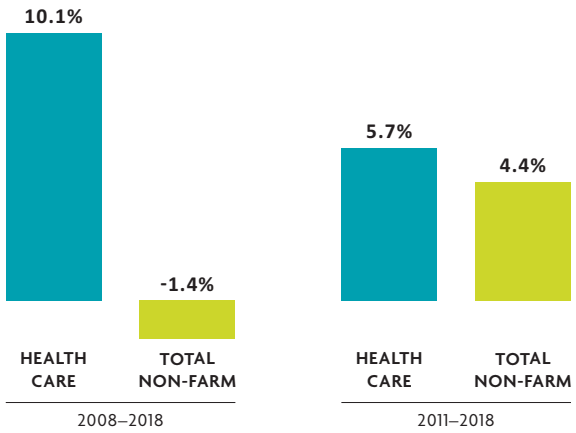
Medicaid plays a major role in Connecticut's growing health system.

Medicaid spending accounted for 19.8 percent of all health spending in the state in 2014.[13] In some key areas, it played an even larger role. In 2016, for example, Medicaid covered:

- 25.4 percent of the nearly 400,000 hospital discharges and 12.9 percent of hospital payments.[14]
- 63 percent of the 373,200 patients who received care at community health centers.[15]

Medicaid is the primary payer for long-term services and supports in the state. Currently, HUSKY covers 70.1 percent of Connecticut's nursing home residents.[16] Moreover, the need for

FIGURE 3: EMPLOYMENT GROWTH IN CONNECTICUT



SOURCE: GEORGETOWN UNIVERSITY CENTER FOR CHILDREN AND FAMILIES ANALYSIS OF BLS DATA

long-term services and supports will grow as the population continues to age—likely a key factor in the rapid growth expected in jobs such as home health and personal care aides. Medicaid will be critical to Connecticut's ability to meet the needs of its aging population.

While health care providers remain concerned about Medicaid's relatively low reimbursement rates—for example, Medicaid physician payment rates equal about three-quarters of Medicare reimbursement rates in Connecticut[17]—Medicaid payments nonetheless constitute an important source of revenues for health care providers.

As a result, substantial policy changes that affect Medicaid—such as state decisions to cut eligibility, benefits or provider reimbursement rates, or federal actions that reduce federal Medicaid funding or otherwise shift costs to states—could have a significant adverse effect on the state's health care system. The impact on the health care system could, in turn, have a significant impact on Connecticut's economy and employment levels, due to the sizable contributions that Medicaid and the overall health care sector make to the state's economy.

MEDICAID'S ROLE IN CONNECTICUT'S BUDGET AND ABILITY TO RECOVER FROM ECONOMIC DOWNTURNS

Medicaid constitutes the largest source of federal funding in Connecticut's state budget—58 percent of all federal funding in state fiscal year 2016 (see Figure 4).[18]

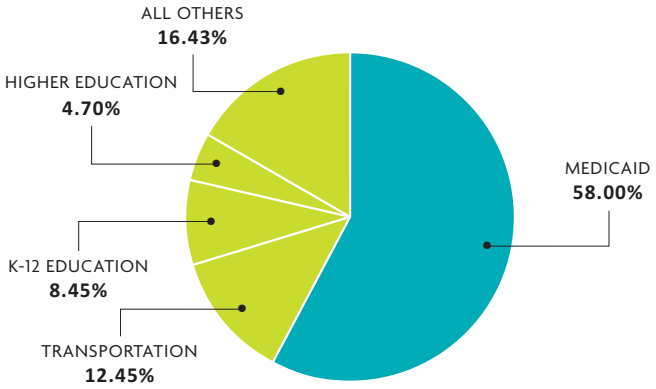
Medicaid is financed by a combination of state and federal dollars, using a flexible system under which the federal government pays a fixed share of states' Medicaid costs. That system ensures federal Medicaid funding is highly responsive to Connecticut's needs.

Overall, in federal fiscal year 2016, the federal government paid for 59.2 percent of Connecticut's Medicaid costs (or $4.6 billion), with the state responsible for the remaining 40.8 percent (see Figure 5).[19]

Generally, the federal government pays 50 percent of Connecticut's Medicaid costs. However, in some cases, the federal share is even greater:

- As part of the Affordable Care Act, the federal government pays nearly all the cost of covering those eligible under the Medicaid expansion (HUSKY D). In 2018, the federal government pays 94 percent of the cost; the payment rate will drop in subsequent years, but will not fall below 90 percent over the long run. As a result, the state will never pay more than 10 percent of the coverage cost for these adults.
- For Medicaid coverage of certain children funded through the Children's Health Insurance Program (CHIP), the state can receive federal reimbursement for 88 percent of the cost. This matching rate is scheduled to fall to 65 percent by 2021.[20]

FIGURE 4: FEDERAL FUNDING FOR CONNECTICUT BY SOURCE



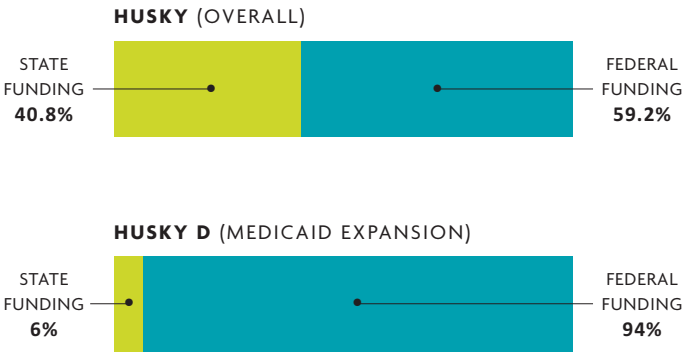
SOURCE: GEORGETOWN UNIVERSITY CENTER FOR CHILDREN AND FAMILIES ANALYSIS OF BLS DATA

An important implication of this funding method is that for every $10 by which Connecticut cuts its Medicaid program, the state would lose more than $5 in federal funding and save just over $4 in general fund spending. A $10 cut to HUSKY D would cost the state at least $9 in federal funding while saving $1 or less in state funds.

Because federal Medicaid funding adjusts based on states' actual Medicaid costs, federal funding automatically rises if Medicaid costs increase. Conversely, if state Medicaid costs fall, the federal government shares in those savings.

This feature is especially important when states experience higher-than-expected Medicaid spending due to an economic downturn, a new costly medication or treatment, or a public health emergency. For example, Medicaid programs faced a significant spike in their prescription drug costs once more anti-retroviral medications became available to combat HIV-AIDS and the HIV drug "cocktail" began to be used in the mid-1990s.[21] In the aftermath of Hurricane Katrina, Texas experienced

FIGURE 5: FEDERAL AND STATE SHARE OF HUSKY FUNDING



When needs grow, Medicaid is a key policy lever to provide health coverage and financial security to state residents, with a significant portion financed by the federal government.

enrollment increases due to an influx of evacuees from Louisiana, Mississippi, and Alabama.[22] More recently, Medicaid has become a critical source of funding for treatment for opioid addiction.[23]

In other words, when needs grow, Medicaid is a key policy lever to provide health coverage and financial security to state residents, with a significant portion financed by the federal government.

Federal funding for Medicaid can promote economic recovery during recessions or downturns.

During recessions or downturns that cause unemployment to rise, states face challenges that include the combination of higher demand for services and a decrease in tax revenues resulting from a drop in economic activity.

As more people become eligible for Medicaid as they lose their jobs and health insurance and state costs rise, federal funding automatically increases, helping the state to maintain its Medicaid program.

This increased Medicaid funding also plays a role in helping to offset the impact of reduced tax revenues.

Periods of lower economic activity typically come with a decrease in tax revenues, leaving states to balance their budgets by raising taxes or cutting spending. Substantial budget cuts, however, would deepen and lengthen a recession or downturn. An infusion of federal Medicaid funding—as well as additional federal funding provided through other safety net programs such as the Supplemental Nutrition Assistance Program (SNAP)—and the resulting spending can offset the economic impact of other budget cuts and reduced economic activity and thus promote a more rapid and robust economic recovery.[24]

This positive effect would likely be even larger during future recessions because of the Affordable Care Act's Medicaid expansion, which generates even more federal funding than other portions of the program. Many people who become newly eligible for Medicaid during a recession would likely be eligible under the expansion portion of the program, for which the federal government will pay 90 percent or more of the costs.

However, any cuts to eligibility, benefits, and provider payment rates that Connecticut makes now would likely weaken Medicaid's ability to help offset budget cuts during the next recession or economic downturn because less federal funding would come to the state as a result.

Research has found that Medicaid eligibility during childhood is tied to higher wages and cumulative higher tax payments made as young adults. It also increases employment and reduces the need for public assistance, especially assistance needed due to disability.

MEDICAID COVERAGE IS LINKED TO LONG-TERM HEALTH AND ECONOMIC BENEFITS FOR CHILDREN

Although this brief focuses primarily on Medicaid's most immediate benefits—providing access to health care and serving as a key contributor to the state's economy and budget—a growing body of national research also finds long-term health and economic benefits for individuals in adulthood associated with Medicaid coverage they received during childhood or when their mothers were pregnant.[25] These long-term effects likely reflect the increased access to care and greater utilization of health services that resulted from their Medicaid coverage.

BETTER HEALTH OUTCOMES

Medicaid coverage of pregnant women has been linked to reduced rates of obesity for their children in early adulthood. It also was associated with a reduction in hospital visits for endocrine, nutritional and metabolic diseases, and immunity disorders.[26]

Research has also linked Medicaid coverage of children to:

- **Improved overall health as adults** (as measured by using an index of high blood pressure, adult diabetes, heart disease or heart attack and obesity indicators).[27]
- **Decreased hospitalizations in early adulthood.**[28] This effect was particularly pronounced among African-Americans: Medicaid was associated with reduced hospitalizations at age 25, by 7 to 15 percent, overall; reduced hospitalizations among African-Americans that are related to chronic illnesses by between 11 and 18 percent; and reduced emergency department visits among African-Americans by between 10 and 15 percent.[29]
- **Lower rates of ambulatory difficulty (ability to walk) and other disability measures** including work limitations, and difficulties with hearing/vision, mobility, self-care, and cognitive function.[30]
- **Reduced adult mortality.**[31]

GREATER EDUCATIONAL ATTAINMENT

Research finds childhood Medicaid eligibility is associated with a reduced high school dropout rate and an increased likelihood of college attendance and four-year degree completion. The effects on high school completion were largest among children of color, while the effects on college completion were largest among white children.[32] Medicaid coverage has also been linked to higher reading test scores among 4th graders and 8th graders when they were covered by Medicaid at birth.[33]

INCREASED EMPLOYMENT, HIGHER EARNINGS AND HIGHER TAX PAYMENTS

Research has found that Medicaid eligibility during childhood is tied to higher wages and cumulative higher tax payments made as young adults. It also increases employment and reduces the need for public assistance, especially assistance needed due to disability. Over time, the higher tax payments as adults allow the federal government and states to recoup a portion of the cost of providing Medicaid coverage in childhood; one study finds higher tax payments of as much as 56 cents of each dollar spent on Medicaid by the time children reach age 60.[34]

CONCLUSION

Connecticut invests significant resources in Medicaid, with powerful results. Medicaid plays a vital role in the state's health care system, both providing access to needed care and contributing significantly to the state's economic activity and job growth.

Federal policies that cap or reduce federal Medicaid funding or otherwise shift costs to states could substantially harm Connecticut's economy, employment levels, health system, and budget. State policies that cut Medicaid spending, such as reductions in eligibility, benefits or provider reimbursement rates, could also have adverse effects. Such policies could reduce access to needed care and result in poorer health outcomes, less educational attainment and lower employment and earnings when Connecticut's children reach adulthood. Moreover, Medicaid coverage brings in additional federal dollars to help offset increased enrollment costs during recessions or economic downturns when state finances grow tighter.

It is critical for policymakers to recognize Medicaid's full impact on the state's economy and health system, as well as its impact on the well-being of close to one in five Connecticut residents.

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